

Public Employee Retirement System

Analyst: Freeman

Historical Summary

OPERATING BUDGET	FY 2004 Total App	FY 2004 Actual	FY 2005 Approp	FY 2006 Request	FY 2006 Gov Rec
BY PROGRAM					
Administration	5,417,000	4,866,100	8,338,000	5,752,800	5,709,100
Portfolio Investment	636,400	521,000	646,500	671,500	667,900
Total:	6,053,400	5,387,100	8,984,500	6,424,300	6,377,000
BY FUND CATEGORY					
Dedicated	6,053,400	5,387,100	8,984,500	6,424,300	6,377,000
Percent Change:		(11.0%)	66.8%	(28.5%)	(29.0%)
BY OBJECT OF EXPENDITURE					
Personnel Costs	3,214,200	3,113,200	3,338,600	3,570,600	3,558,100
Operating Expenditures	2,724,100	2,162,100	5,456,700	2,743,000	2,708,200
Capital Outlay	115,100	111,800	189,200	110,700	110,700
Total:	6,053,400	5,387,100	8,984,500	6,424,300	6,377,000
Full-Time Positions (FTP)	63.00	63.00	63.00	63.00	63.00

Division Description

The RETIREMENT ADMINISTRATION Program administers a Defined Benefit (DB) retirement plan that is mandatory for all eligible State and school district employees, and for employees of political subdivisions which have elected to participate. The plan also provides separation, disability, death and survivor benefits. The mission of the Public Employee Retirement System of Idaho (PERSI) is to provide members and their beneficiaries with reliable, secure, long-term retirement, survivor, and disability benefits as specified by law, and to assist members in planning a secure retirement by providing high quality, friendly service, retirement education and information. The system also administers the Sick Leave Reserve Fund for State and school district retirees, from which monthly medical insurance premiums are paid, as well as the former Firemen's Retirement Fund and the Idaho Falls and Boise City Police Retirement Funds.

As part of the Gain Sharing program adopted by the 2000 legislature, PERSI established the PERSI Choice Plan, a Defined Contribution (DC) plan for the 62,000 active members of PERSI. This plan, in addition to and separate from the DB plan, provides a 401(k) plan option to all members who are eligible. In years in which investment earnings and total DB plan assets sufficiently exceed liabilities plus one standard deviation reserve, the PERSI board may declare a portion of the excess earnings as gain sharing. When gain sharing is authorized, active members receive their allocation in the form of a transfer into their DC account. Retirees receive a 13th check. Employers receive a credit against future contributions.

The PORTFOLIO INVESTMENT Program is responsible for the management of PERSI assets to ensure secure long-term returns on investments while minimizing investment costs. Beginning in FY 1996, the administrative costs of portfolio investment came under a fixed appropriation. The remaining investment costs continue to operate under a perpetual appropriation as provided in Idaho Code §59-1311.

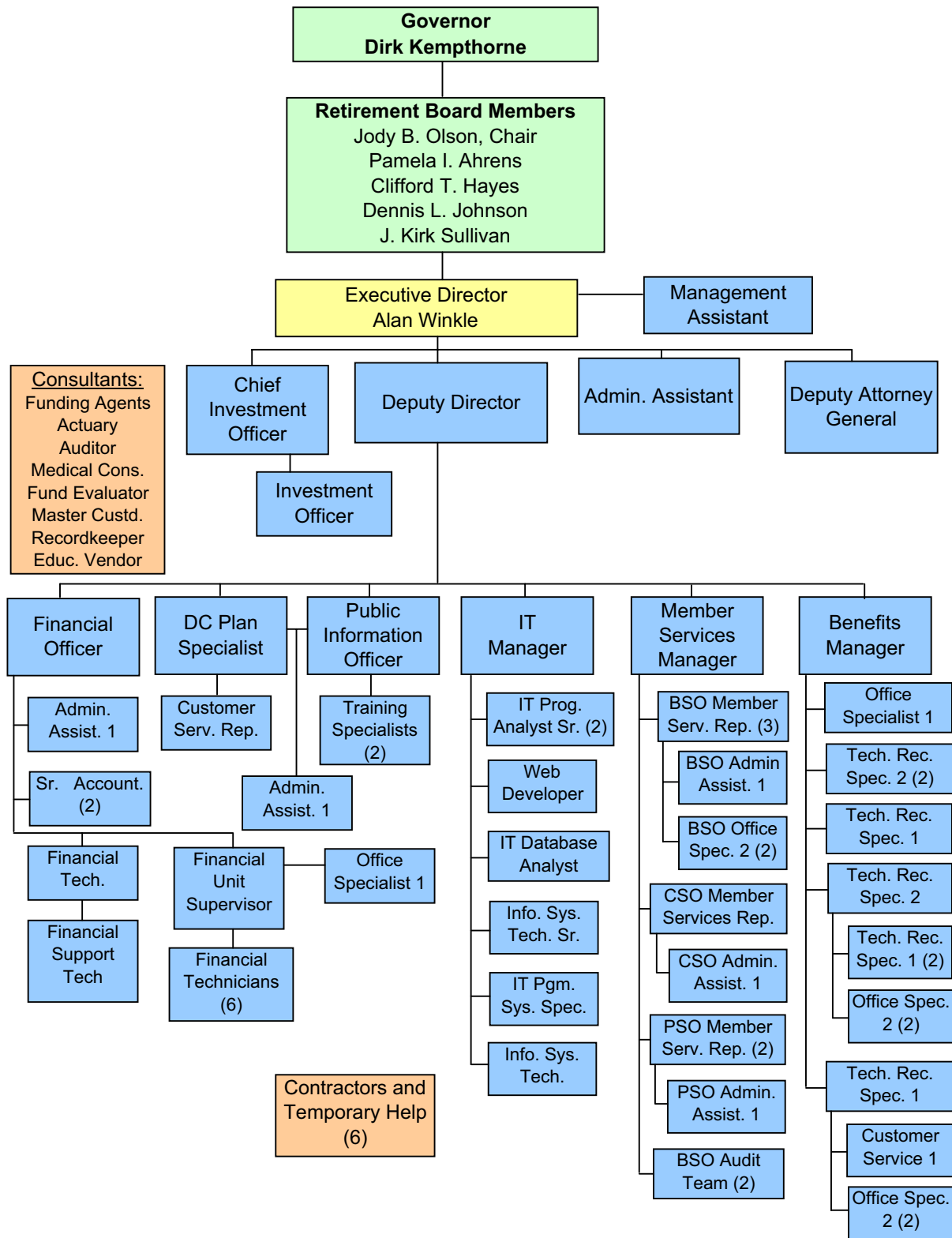
401(k) ADMINISTRATION Program: FY 2003 was the final year of this program.

[Statutory Authority: Idaho Code §59-1301 et seq.]

Public Employee Retirement System

Agency Profile

Analyst: Freeman



Public Employee Retirement System

Agency Profile

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Source of Funds

FY 2005

Original

\$8,338,000

PERSI Administrative (0550-01): Weekly, a portion of the retirement system's annual appropriation is transferred to the Administrative Fund. All moneys transferred to the Administrative Fund are available to the Board for the payment of administrative expenses only to the extent so appropriated by the Legislature.

PERSI SPECIAL (0550-02): Public employees and employers make contributions to PERSI. In order to maximize the return on investment of these contributions, only a minimum amount of money is kept on deposit at the State Treasurer's Office. Money is wired in from PERSI's master custodian bank only when funds are needed to pay administrative expenses, benefits, or other authorized expenses.

\$646,500

\$8,984,500

Selected Measures	FY 2003 Act.	FY 2004 Act.	FY 2005 Est.
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ADMINISTRATION

1. Benefits paid (retirements, separations, disability)	325,455,000	357,302,000	387,300,000
2. Administrative expenses (keep below .15% of total asset market value)	0.10%	0.09%	0.09%

PORTFOLIO INVESTMENT

1. Annual investment income, net of fees	221,245,600	181,256,600	545,500,000
2. Number of investment managers at year-end	35	40	43
3. Number of investment managers hired/fired	0/1	8/3	3/0

Summary of Assets (All Plans)

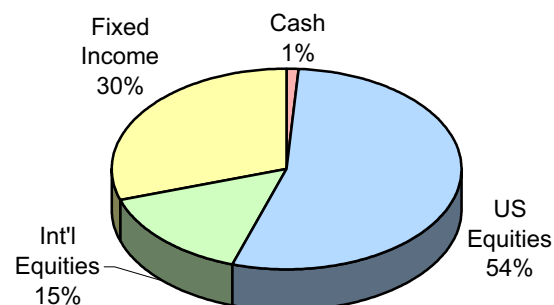
	FY 2003 Act.	FY 2004 Act.	FY 2005 Est.
Beginning assets	6,473.6	6,742.9	7,953.0
Plus contributions	380.0	393.1	408.5
Plus net investment income	221.4	1,181.3	545.6
Less benefits paid & other expenses	(332.1)	(364.3)	(386.5)
<i>Ending net assets (millions)</i>	<i>6,742.9</i>	<i>7,953.0</i>	<i>8,520.6</i>

Contribution Rates

	FY 2005	FY 2006	FY 2007
Employer Rate (General Members)	10.39%	11.00%	11.61%
Employee Rate (General Members)	6.23%	6.60%	6.97%
Employer Rate (Fire/Police)	10.73%	11.34%	11.95%
Employee Rate (Fire/Police)	7.65%	8.09%	8.53%

FY 2003 restated to include information on all plans including sick leave.

This target asset allocation (whereby PERSI will consistently have about 70% of its assets in equity instruments) is the board's only way to achieve the desired 5% real return (i.e. inflation plus 5%) on investments.

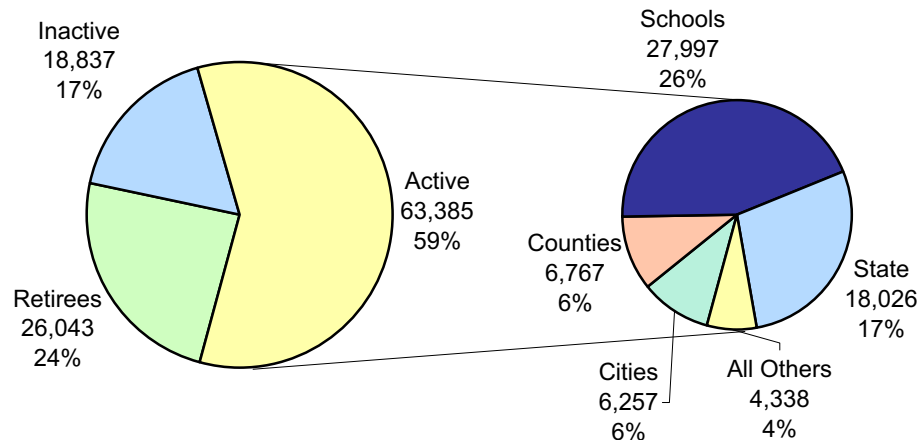


Public Employee Retirement System Agency Profile

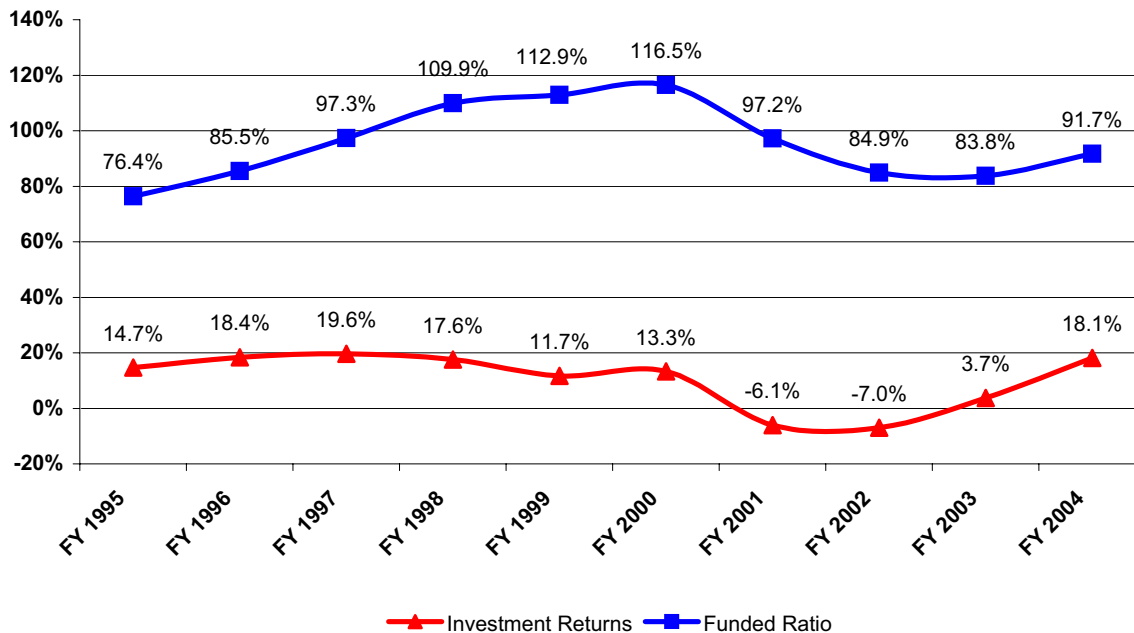
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PERSI Membership

675 employer units belong to PERSI, for a total system membership of 108,265



PERSI - Funded Ratios and Investment Returns



The PERSI Base Plan experienced a 18.1% gross return on investments in FY 2004, which equals \$1,113.6 million in net investment gain. As of July 1, 2004, the PERSI fund was valued at over \$7.4 billion, up from \$6.3 billion the prior year. PERSI's unfunded actuarial liability at 7.8 years is less than the 25-year amortization period required by law. In November 2002, the PERSI board approved a total contribution rate increase including employee and employer rates, of 3% (phased-in over three years beginning in FY05). At the end of the phase in, contribution rates will be at the same level they were prior to November of 1997 when rates were originally reduced 3%.

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Comparative Summary

Decision Unit	Agency Request			Governor's Rec		
	FTP	General	Total	FTP	General	Total
FY 2005 Original Appropriation	63.00	0	8,984,500	63.00	0	8,984,500
HB 805 One-time 1% Salary Increase	0.00	0	27,300	0.00	0	27,300
Governor's Rescission	0.00	0	0	0.00	0	(11,400)
FY 2005 Total Appropriation	63.00	0	9,011,800	63.00	0	9,000,400
Removal of One-Time Expenditures	0.00	0	(2,996,800)	0.00	0	(2,995,000)
Base Adjustments	0.00	0	0	0.00	0	9,600
FY 2006 Base	63.00	0	6,015,000	63.00	0	6,015,000
Benefit Costs	0.00	0	55,200	0.00	0	42,700
Inflationary Adjustments	0.00	0	34,800	0.00	0	0
Replacement Items	0.00	0	151,900	0.00	0	151,900
Nonstandard Adjustments	0.00	0	(9,400)	0.00	0	(9,400)
Change in Employee Compensation	0.00	0	28,800	0.00	0	28,800
27th Payroll	0.00	0	112,700	0.00	0	112,700
FY 2006 Program Maintenance	63.00	0	6,389,000	63.00	0	6,341,700
1. Business Process Re-engineering	0.00	0	35,300	0.00	0	35,300
FY 2006 Total	63.00	0	6,424,300	63.00	0	6,377,000
Change from Original Appropriation	0.00	0	(2,560,200)	0.00	0	(2,607,500)
% Change from Original Appropriation			(28.5%)			(29.0%)

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Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
FY 2005 Original Appropriation					
	63.00	0	8,984,500	0	8,984,500
HB 805 One-time 1% Salary Increase					
Agency Request	0.00	0	27,300	0	27,300
Governor's Recommendation	0.00	0	27,300	0	27,300
Governor's Rescission					
Agency Request	0.00	0	0	0	0
<i>The Governor recommends removal of funds not needed to implement HB 805. In addition, the Governor recommends removal of risk management funding in excess of needs calculated by the Department of Administration.</i>					
Governor's Recommendation	0.00	0	(11,400)	0	(11,400)
FY 2005 Total Appropriation					
Agency Request	63.00	0	9,011,800	0	9,011,800
Governor's Recommendation	63.00	0	9,000,400	0	9,000,400
Removal of One-Time Expenditures					
Reflects removal of one-time 1% salary increase and Business Process Re-engineering.					
Agency Request	0.00	0	(2,996,800)	0	(2,996,800)
Governor's Recommendation	0.00	0	(2,995,000)	0	(2,995,000)
Base Adjustments					
Agency Request	0.00	0	0	0	0
<i>Restore risk management rescission to the base.</i>					
Governor's Recommendation	0.00	0	9,600	0	9,600
FY 2006 Base					
Agency Request	63.00	0	6,015,000	0	6,015,000
Governor's Recommendation	63.00	0	6,015,000	0	6,015,000
Benefit Costs					
Includes the employer-paid portion of estimated changes in employee benefit costs. The two biggest factors are health insurance rates and retirement rates. Health insurance is projected to increase by 9.7% or \$632 per position. Retirement rates are scheduled to increase by 5.9% from 10.39% to 11% of salary for regular employees. Other benefit changes include a reduction in unemployment insurance rates, a reduction in Division of Human Resources rates for classified employees, and an increase in workers compensation rates.					
Agency Request	0.00	0	55,200	0	55,200
<i>The Governor does not recommend increases related to changes in the Public Employee Retirement System.</i>					
Governor's Recommendation	0.00	0	42,700	0	42,700
Inflationary Adjustments					
Includes a general inflationary increase of 1.3% in operating expenditures.					
Agency Request	0.00	0	34,800	0	34,800
<i>The Governor recommends no increase for general inflation.</i>					
Governor's Recommendation	0.00	0	0	0	0

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Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
Replacement Items					
RETIREMENT ADMINISTRATION					
Capital Outlay: 28 PCs (\$44,800), 3 laptops (\$6,900), 5 servers (\$30,900), 1 desk (\$800), 1 file (\$400), 1 chair (\$400), 1 cabinet (\$400), 3 printers (\$5,400), and 1 fax (\$1,600).					
Operating Expenses: Software upgrades (\$41,000).					
PORTFOLIO INVESTMENT					
Capital Outlay: 3 PCs (\$9,000), 1 color printer (\$8,000)					
Agency Request	0.00	0	151,900	0	151,900
Governor's Recommendation	0.00	0	151,900	0	151,900
Nonstandard Adjustments					
The Statewide Cost Allocation Plan assesses state agencies for their actual use of Attorney General, State Controller and State Treasurer services. Also included are changes in property and casualty insurance premiums by the Department of Administration.					
Agency Request	0.00	0	(9,400)	0	(9,400)
Governor's Recommendation	0.00	0	(9,400)	0	(9,400)
Change in Employee Compensation					
Reflects the cost of a 1% salary increase for permanent positions.					
Agency Request	0.00	0	28,800	0	28,800
The Governor recommends a compensation increase of 1% to be distributed based on merit. No adjustment to the pay line is recommended.					
Governor's Recommendation	0.00	0	28,800	0	28,800
27th Payroll					
Reflects the cost of one additional payroll in fiscal year 2006. This happens every eleven or twelve years because there are 364 days in 26 payperiods but a year has 365.242 days.					
Agency Request	0.00	0	112,700	0	112,700
Governor's Recommendation	0.00	0	112,700	0	112,700
FY 2006 Program Maintenance					
Agency Request	63.00	0	6,389,000	0	6,389,000
Governor's Recommendation	63.00	0	6,341,700	0	6,341,700
1. Business Process Re-engineering			Retirement Administration		
In FY 2005, PERSI received \$2,850,300 in spending authority for Business Process Re-engineering project, which include costs for consulting and technology. This project will span over three fiscal years, with out-year project expenses handled through the statutory encumbrance process. The Business Process Re-engineering project has recommended organizational restructuring. This reorganization will move the agency from a specialized customer service structure to a generalist staffing providing separate process and member contact units for better customer services and efficiency across all PERSI benefits. In addition, cross functionally trained staff will allow PERSI to be more flexible in responding to member questions and spikes in service loads on a day to day basis. To implement this restructuring, it is necessary to reclassify 13 of 26 positions. This enhancement would provide the spending authority necessary to fund the reclassifications. The total request is for \$35,300 in ongoing personnel costs, which represents a 1.1% increase over the MCO personnel budget.					
Agency Request	0.00	0	35,300	0	35,300
Governor's Recommendation	0.00	0	35,300	0	35,300
FY 2006 Total					
Agency Request	63.00	0	6,424,300	0	6,424,300
Governor's Recommendation	63.00	0	6,377,000	0	6,377,000

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Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
<i>Agency Request</i>					
Change from Original App	0.00	0	(2,560,200)	0	(2,560,200)
% Change from Original App	0.0%		(28.5%)		(28.5%)
<i>Governor's Recommendation</i>					
Change from Original App	0.00	0	(2,607,500)	0	(2,607,500)
% Change from Original App	0.0%		(29.0%)		(29.0%)